

COST and MANAGEMENT

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Preparing for Canada's Industrial Expansion

Convention of Canadian Society of Cost Accountants at
McGill University and University of Montreal,
September 7th, 8th and 9th

MANUFACTURING Industries are developing rapidly in Canada and especially in Quebec and Ontario. With the tremendous possibilities of water-power development in these provinces, provided they keep them for their own use and do not sell them for "a mess of pottage," and their vast

The President and Directors of The Canadian Society of Cost Accountants invite you to the second Annual Convention to be held in Montreal, September 7th, 8th and 9th, at McGill University and at the School of Higher Commercial Studies, University of Montreal.

Le President et les Directeurs de Canadian Society of Cost Accountants ont l'honneur de vous inviter à la deuxième convention annuelle, qui aura lieu à Montreal, les 7, 8, et 9 Septembre. Les réunions auront lieu à l'Université McGill et a l'Ecole des Hautes Etudes Commerciales de Montreal.

mineral wealth, provided that they manufacture most of it themselves, they will become one of the great manufacturing areas of the World. The same applies to the rest of Canada, but in the East the great development has well commenced. The Mining Experts of the Empire are showing at their Convention in Canada what a great future lies before her as a wealthy mining country. But more experts than mining, mechanical, and other engineers are required if Canada is to receive the full benefit of her own wealth. Cost Accountants, Entrepreneurs, Organizers of Business, Industrial Engineers, Factory Managers, Regular Accountants are required as well. Never was there a time when

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there was greater need for efficiency in business organization. The manufacturer's prices are usually fixed for him. He must make his profit by effecting savings where he can. He can only do this by having the best organization possible in his factories, sales-rooms, shipping departments, and elsewhere; and by watching his expenses and the costs of every operation possible within his factory and elsewhere. Today, he must have the services of the skilled Cost Accountant and the Industrial Engineer, if he is not one or both himself. Accordingly, it is fitting and full of meaning that the Canadian Society of Cost Accountants should be holding its Second Annual Convention in the Metropolis of Canada, under the roofs of McGill University and the University of Montreal, during September 7th, 8th and 9th.

A few years ago a Government investigation in the U.S.A. revealed the fact that only 5% of American manufacturers knew what their goods cost them to make. 95% were working in the dark. It is to avoid a situation like that in Canada that the Canadian Society of Cost Accountants was brought into existence in 1920. This Society's object is to encourage the study of modern costing methods and to encourage research into manufacturers' problems in Canada. It is rumoured that several large United States firms of Cost Accountants and the Industrial Engineers are considering the opening of offices in Montreal and elsewhere in Canada, in order to supply Canadian Manufacturers with the services that many of them undoubtedly need. This Canadian Society feels that these services should come through Canadian firms and individuals, as they can understand Canadian problems better than outsiders. In order to arouse interest this Convention is being staged in Montreal, under the roofs of McGill University and the University of Montreal by the President, Mr. Lorenzo Belanger, C.P.A., C.G.A., and the other officers of the Society. Among those who have been asked to speak are the Hon. James Malcolm, Minister of Trade and Commerce; the Hon. Mr. Taschereau, Premier of Quebec; the Hon. Fern. Rinfret, Secretary of State for Canada, Sir Arthur Currie, Sir Henry Thornton, and Sir Lomer Gouin.

The programme is given on pages 20 and 21 of this issue.

It will be noted that several of the speakers are from the National Association of Cost Accountants, the sister

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body in the U.S.A., with which the Canadian body is on the best of terms possible. An especially pleasing feature of the whole affair, and one which causes us to look forward with confidence to the day, when Canada will be the greatest state of the British Commonwealth, is the manner in which French and English speaking Canadians, and the two universities of this city are co-operating to arouse the interest of Canadians in the sound Industrial Development of Canada and to give this Convention and the future of the Canadian Society of Cost Accountants the greatest success. Men of all branches of Industry and Commerce should be interested in this Convention, manufacturers, bankers, financiers, factory managers, business executives, accountants, and so on.

If any wish to be present, and they do not receive invitations before August 31st, they should write to one of the following secretaries: L. P. Lortie, C.P.A., 294 St. Catherine St. East, Montreal; Hugh F. Kerrin, C.P.A., 392 St. James St., Montreal.

Production

By T. S. JARDINE

Production Manager, United Drug Company, Ltd., Toronto.

(Before the Canadian Paper Box Manufacturers' Association, Toronto,
June 20, 1927.)

WHEN we attend a trade convention, we usually have two things in mind:—the inspiration we gain from personal contact with our friends in the trade; and picking up new ideas that we can apply in our plants when we go back to them.

What we need is to gain that new view-point which will enable us to see our plant and our methods of processing as others would see them. Sometimes when we are talking things over with friends, just some chance word may give us the slant we need, start us thinking along different lines and enable us to solve our problem.

Manufacturing may be very simply defined as "The conversion of material into a more valuable state." To do that, we need men—money—material—machinery, and methods.

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The terms Material, Labour and Overhead, we use when talking costs: Behind them is the organization we have set up for production. Col. A. B. Franklin, of The Strathmore Paper Co., says—"The effectiveness, final results, successes and progress of a manufacturing concern are due pretty much to the skill, efforts and hard work of the managers and executives." He gives four tests to measure the effectiveness of the manufacturing group:—

1. Are the workers enthusiastic?
2. Is the plant in good physical condition?
3. Are the methods of operation up to date?
4. Does the product offer attractive values?

When we include the Production Superintendent and Foreman in the manufacturing group, that about sums up the situation.

Managing a business or a department can be done in either of two ways:—Run it and know what is being done and why, or sit on top and let it run itself—just like sitting on a bridge and letting the water run under you. So long as you are paid for sitting there, and the water runs, everything is all right. The test of a man is his ability to meet emergencies. The Production man must keep production going. The Maintenance man must keep machinery going somehow, even if he has to stay up all night to do it. If there is sound executive control at the top and harmony between production and maintenance departments, economical production is made possible.

We are all of us under constant pressure from the Sales end of the business to "*Get costs down so we can meet competition*" and to "*Produce—what we want when we want*

Character of Competition

The word competition is a general term. We all have to meet it, but have we given thought to what lies behind it?

In what are we forced to compete? Is it in Quality? Quantity? Price? Design? Appearance? Colour? Utility? Service? or Cost? The answers to these questions point the way to betterment of production and to reduction of cost.

Cost reduction is one of our most difficult problems. It is not one that can be solved by any ready-made system of Production or Accounting, or by the installation of expensive machinery. It will always be the result of common sense applied to the thousand and one small leaks in the

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business—common sense, sound constructive thinking and keeping everlastingly at it. These things *will* solve our problems.

Consider the labour organization in the average factory of to-day. A superintendent in charge; under him foremen and forewomen in charge of departments. The foremen are the key to the labour situation, and they can be fairly judged by the following standards:

- Willingness to co-operate.
- Initiative and Executive ability.
- Handling and instruction of employees.
- Reduction of Unit Costs.
- Prevention of waste.
- Maintenance of quality standards.
- Interest and suggestions for improvement.
- Ratio of Indirect to Direct Labour used in the department.

Ratio of Department monthly expense to monthly production at cost.

These last two items are not wholly under the control of the foremen and fair allowance should be made.

One thing we can always be sure of; if the foreman is happy in his work, the employees under him will be. They will think as he thinks and act as he acts.

In common with other light manufacturing trades, your plants employ a large number of female help. On the other side of the line, a considerable number of large plants in other lines of business have made it a positive rule not to put any girl in charge of a machine who does not weigh at least 140 pounds. The small or slender girl is apt to be of a more nervous temperament, good on assembly or bench work but too liable to an accident on machine work.

The selection of men for machine or bench work could not be so arbitrarily made, but it is a safe rule not to put nervous or excitable men on any but your safest machines. I have known foremen in woodworking shops who would not hire a shaper hand unless he had one or two fingers off. He had to have his lesson on a dangerous machine before he was any good to them.

There are not many plants where it does not cost at least \$50.00 to break in a new employee. Twenty new employees a year mean at least \$1,000 wiped right out of your

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net profits. That is the one best argument for making every effort to keep satisfied employees and to reduce labour turnover.

Inspection of Finished Product

Inspection of finished product is very closely connected with the handling of labour. There are three good reasons for inspection, even in the small plant. To maintain standards of quality, to safeguard billing of quantity, and to eliminate disputes with customers as to accuracy of completion of orders.

A conscientious foreman in a small plant, or special inspectors in the larger plants, can do this at very small expense. This is one way of stopping leaks. May I quote C. E. Knoepfel for a moment? "The waste due to management is far greater than that due to the workers." This statement applies not only to material waste but to labour as well, and one of our biggest leaks to-day is the non-use of labour for which we have paid good money. There are two ways of getting at this figure: a daily record of lost time of each employee while at work, and the reason therefor, or by using standard costs, checking output priced at Standard Cost against the net total labour cost for the month. If you try out either way, you may get a shock, but by the end of the first year you will see great improvement and it will be reflected in increased net profits.

You will note all the way through I am referring to *net profits*. What else are you working for? It is too easy to think gross profit and lose sight of the leaks. How many manufacturers during the past five years have looked over their statement every month and figured they were making a nice profit; at the end of the year when inventories were taken and the books closed the profit had disappeared? When you tried to find out why, every investigation seemed to lead to a dead end.

Wage Systems

So much has been said in Trade Magazines and on the platform about methods of pay and the merits of different bonus systems, that the subject seems to have been pretty fully covered. One method, though, is rapidly growing in use—the Group System of pay. It has the merit of being simple so that employees can easily understand it; it costs

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less to operate and it tends toward uniformity of costs. Moreover, a group piecework gang will not tolerate a slacker. Each one is kept up to the pace by the others and supervision is made easier.

Where work can be put on a small belt conveyor for light assembly or finishing operations, the working pace is taken care of by the belt speed, and even here group piece-work is an advantage on every job where it can be applied.

In considering piecework rates, it is unfair to labour to judge an employee by the size of the envelope he takes out of the plant. If he earns \$5.00 a week more than you think he should, that is not a good reason for cutting the piece rate. It is much more likely the fault is with the management. It pays better to set fair rates and have a sufficient number of workers busy every minute and making good pay, than to have a nucleus crew and hire on a large staff of temporary workers when a rush comes. It costs too much to train green help and you do not get it back.

It is all a matter of how you look at it, and it may be that some of us are taking a worm's eye view of the labour situation rather than a bird's eye view.

Throughout our plant we have tried to build up a pride in good work. The idea, "the best we can do is not good enough" has made a wonderful difference in the quality of work turned out. Of course, we have our troubles. We are not perfect and will not be, but at least we have a product and a plant to be proud of, and a family of employees who are happy in their work.

Materials and material handling are a study in themselves. To have enough material on hand and not too much. To move it steadily along through process. To process it without undue waste; and to get it to the customer, on time and in good condition, takes organization. Whether your plant is large or small, the problems are the same. It is only methods that differ.

Putting Through the Order

Getting the order into the factory is the stumbling block in many plants. It takes clear-headed thinking to break down a sale into production units, to write up factory orders so clearly that mistakes will not be made and to see that special and stock material is ordered to come in when it is needed. Then the order must be scheduled through

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the factory. Planned work means a steady flow through the factory throughout the year. Even if all orders are special orders, it is still possible to plan and schedule delivery dates to avoid peak loads. Only such methods will prevent over-enthusiastic salesmen making promises that cannot be kept, except at heavy expense. Moreover, such planning will enable the plant to run with a minimum number of workers and give them steady work.

In all these things the problem of expense comes in. Just how far we can go with any order system depends on the individual business and the men who are in it. The management must decide this for themselves.

Machinery in the Plant

When we come to machinery in the plant, we have still another problem. Did you ever see a manufacturing plant where some man in it did not want another machine? In our own plant we are constantly studying the possibilities of using new machines, but it is doubtful if we buy one in ten of the machines we investigate. We have either to drop the idea altogether or set it ahead two or three years.

It is a pretty safe rule that if the net saving by operation of a proposed machine will not pay the installed cost of it in three years, leave it alone and find some other way to do the job. We figure it this way:—

Laid down cost of machine	say \$500
Installing and testing out	say 190
Cost ready to operate	\$690
Interest on Investment, 6%	\$41.40
Depreciation, 10-year life, 10%	69.00
Maintenance and repair, estd.	62.10
Annual operating cost	\$172.50

This amounts to 25% of the original investment and must be taken up each year in your costs.

Against this we figure, say, \$240,000 per year saving by use of the new machine instead of our present equipment, basing this on the present volume of production. So far, the proposition looks good and the argument is advanced that as time goes on our output will increase and we will need all the additional capacity of the machine.

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Next, we figure as accurately as we can, basing on 80% of the manufacturer's production rating, and find the machine will need to run only 50 days per year to turn out all the product we can hope to sell in the next year. This means that for 250 days in the year the machine will stand idle; only 1/6th of the overhead on this machine will be absorbed in production and 5/6th or \$143.75 will have to be charged off to unabsorbed overhead. Deducting this from the expected annual saving of \$240.00 leaves only \$96.25 per year we can hope to save. Not so good. Right there, another machine salesman is due to go away talking to himself, and we start in to hunt for some cheaper way to save money. Usually about that time we discover we never wanted that machine anyway, and there is a better way to do the work.

This is one of the faults of present day mechanization. We all agree that we cannot hope to make a net profit without up-to-date machinery. The trouble with about 80% of us is we are hoping to make a net profit with too much machinery, and we are lugging a mill stone of carrying charges round our necks. Either that or the machinery we have is not suited to our present product.

To-day the only justification we have for buying new machinery is increased production beyond the capacity of present equipment, or the possibility of a quick and real saving.

There is another angle to this question. Trade conditions and requirements are changing so rapidly that machines quickly go out of date. A new plant opening up with up-to-date machinery can make very serious competition for older plants equipped with machinery five to ten years old. It is well worth while to consider speeding up machines and driving them to the limit of the operator's ability to work with them. True, they will wear out sooner and will cost more to maintain; against that we have increased output and have that much sooner made the machine earn its cost. Then it can be scrapped with a clear conscience. To-day 15 years is too long a life to set for depreciation, and the cost of the average run of machines should be wiped out in 10 years.

In our own plant, five years ago we began to develop a definite plan of betterment. This included plant layout,

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machinery and equipment. At first this was rather indefinite, but the plan took shape, and every move was made with the one idea in mind. Year by year, we are working as closely to that plan as conditions will allow, and we know where we are heading. As we have the opportunity, and feel we can absorb the expense, production lines are being straightened out, and small fixtures are being replaced by equipment more suitable to our needs. Steadily we are cutting down material handling and speeding up production.

This has been done without any noticeable expenditure. Just the ordinary, sensible spending of maintenance funds. Our production is increasing steadily. The total cost of maintenance and repair is dropping year by year, and our pay roll to-day is just about one-half what it was four years ago. All this is entirely due to improvements made, carefully planned production, and to more efficient use of labour we buy.

May I make a suggestion? Pick out some young fellow in your plant who has a liking for mechanics and a flair for asking questions. Start him studying your production problems and listen patiently to the ideas he may bring to you. In every one of them there will be some possibility for improvement; you may not be able to work them out immediately but they will all build into the general plan for improvements. When you do get around to them, not likely any one of his suggestions will be worked out as he had in mind; mulling it over in your mind and discussing it with the men concerned, you will find a better way. When you have worked out your plans, see that every man concerned understands what you are trying to do, and that they work to them. It is very safe to say that within a year you will see operation costs coming down.

Now, as to production methods, it is difficult for one in an entirely different line of trade to do more than treat them generally.

Checking Up Production

The follow up of orders placed in the factory is one most important item. Unless there is a daily check on the progress of orders through the factory, something may slip and a customer may be lost. A month or two of this daily check and it has become a habit. The foremen learn that when they make a promise, you expect it to be kept and the

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time of your superintendent of production is left free to plan and execute. Such a follow-up can be very simply done and at small expense.

In studying possibilities for improvement of production in the plant, about the first thing is to take one line of product and list the operations performed, one after the other. Possibly when you have studied half a dozen differing lines of product, you may wonder why a machine or a table was ever placed where it is. Sometimes a couple of hours spent in a department talking things over with the foreman and making minor alterations in the location of his equipment will save quite a few dollars per year.

Next, take that same sheet, and go over it with your foreman, asking the question—How many operatives can work at this bench? How many at that machine? Locate the bottle neck—the one point in the department where work will be held up. Concentrate on that one point until the flow of work is evened up and you will have made one more step in cost reduction.

Factory lighting is worth consideration, especially for the winter months. Good work depends on clear vision. Benches and machines may be so placed that with daylight good work can be done. When lights are turned on there may be plenty of light but it may be coming from the wrong direction. In such case, the more light you use, the worse the condition becomes. A good check on this is to keep track of production hour by hour for a few days on the same class of work. You may find a distinct falling off with artificial light, and if so, you cannot remedy it too soon. Some of the irritability of certain employees may be due to eye strain. Unfortunately, not enough people realize that eye strain will upset the digestive system just about as quickly as wrong food or late hours.

Closely allied with light is the effect on employees of cleanliness. It costs money to scrub floors, wash down paintwork and clean windows. It costs still more if it is not done, but your cost figures or financial statements will not show you where these dollars leaked away.

Safety Work

A good example of such intangible losses is in a wood-working plant in West Ontario. Up to about three years ago, they had strongly objected to putting in safety appli-

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ances. Within two years after such devices had been installed throughout their plant, their production rate had increased to a point where the saving had paid for all the extra equipment installed. The men were able to speed up because they had less fear of accident and now the firm are enthusiastic on safety work. There is money in it.

In our own plant in two years we have reduced accidents from an average of two per week to one in two months, and since January 1st of this year have had just six days' lost time. No great expense was incurred in doing this. Just the ordinary course of maintenance work, putting up safety bulletins, and quiet talking and warning to bring about the safety idea. More than that, this showing has been made by our employees in the face of unavoidable risk from broken glass.

If a man at age 25 has a potential value of \$25,000 as statisticians figure it, is it wise to risk damage to such an expensive unit by saving a few dollars? The Compensation Board estimate that the average cost of accidents to employers themselves is approximately four times what the Board pay out. That includes, of course, dislocation of production through lost time and other incidental expenses. These are good reasons for studying safety.

Not many manufacturers give much thought to what goes on in the Boiler-room. They look on it as an expense to the business, just the same as the office, whereas the Power plant is just as much a producing department as any other. The only difference is that all their product is used by other departments. If you know how many pounds of steam they turned out per hour and per day, and at what cost per 1,000 lbs., you might see possibilities for saving and elimination of waste.

Just lately we have had occasion to figure out how much heat was lost into the earth from the bottom of our boiler setting. We have a 135 H.P. boiler and it rather surprised us to find that it wasted about one and a quarter tons of coal per month. That is about \$7.00. Now, we are taking steps to cut that down to \$2.00 per month, and the change pays for itself in less than one year.

In the past three years we have reduced coal consumption from 1,250 tons per year to 650 tons. We run one boiler, hand fired, working 10 hours in summer and 12 to 17 hours in winter. It is not at all impossible that one-half of

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the plants in Toronto, and maybe more, are wasting half the coal they burn. Such savings can be made at very small expense and usually with only slight re-arrangement of the plant. Mainly the job is to find out what is wrong and fix it. Sometimes, and indeed quite often, the fault is with the fireman who is there to shovel coal and does it. It is no concern of his if his stack damper is too wide open and he is heating all outdoors. It is a wonder to me that some of our weather sharps do not blame all the bad weather on just such upsets of nature.

Another way where a little money can sometimes be saved is to look under the benches in departments. Are the left-overs from previous orders left with the foremen to be used as and when they think of them? It pays better to make the rule to send all unused material back to the raw stock room where it can be reconditioned, if necessary, and re-issued on the next order where it can be used up. A good many dollars per year get thrown out as spoiled material that might be saved.

Standardized Costs

We have heard much in the past two years of Standard Costs. Really they are not a new thing. Just a new name for old common sense methods. Some call them pre-determined costs. As I understand the general plan of manufacturers in your Association, practically all work is obtained on estimates from which the selling prices are set. I wonder if it has ever occurred to you that you have been setting up Predetermined Costs all the time. Maybe you have not made use of your estimates as such but it *can* be done. You can make it possible for your employees to know whether they are doing better or worse than you figured they would. Maybe they would find out that once in a while you make a faulty estimate. That might do both parties good. At least they would know that you were only human and not quite divine, and they would love you the more for it. Really though, such an estimate gives the production department something to shoot at, and it is all a matter of setting up simple records to check against your estimate, item by item. It will lead to better results in the factory and to better estimating. Both mean more net profit.

You may say, every job we get is special and often we have not made the same shape or worked the same kind of

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material before. It may be, but somewhere buried in your records and estimates you will have data on something similar. Can you put your finger on it? If you can, it is not hard to estimate what the difference in cost will be to work a slightly different material of the same type. Here again common sense and plenty of brain work is needed if intelligent data is to be set up. It is rather a question of how much to leave out rather than how much to put in.

Standardization of Product and processes is good business, but if judgment is not used it may be overdone. Simplification of processes and methods will often bring better results. You cannot very well simplify a product made to a special order but you can simplify the methods you control. When you have worked out the one best way to put that job through the factory, you will find it simpler and more direct. Then set that method up as a standard until conditions change.

A good example of how this is working out in the machinery trades can be found in your own plants. Ten year ago automatic and semi-automatic machines were big, clumsy and rather complicated pieces of apparatus. To-day they are simpler, more compact, made up of less parts and operate faster. More production with less floor space and power. Always first developments are complex. Then comes the easier, more direct way and we wonder why our first attempts were so awkward.

In this paper I have attempted to emphasize the importance of things we are apt to overlook. "It is the little things that count," and this is just as true in business life as in family life.

A constructive betterment plan, reasonable adherence to it and a constant seeking for the one best way will show a surprising reduction in your overhead with increased production and lowered unit costs.

The Accountant and the Development of Commerce

By PROFESSOR R. M. SUGARS, M.A., A.I.A.

Director, School of Commerce, McGill University, Montreal

(Before the Annual Meeting of the Montreal Chapter, April 26)

MY address will be about Commerce generally, its history, and the views that have been held concerning it, and in the course of what I say I shall attempt to indicate the privileged position that is reserved in commerce for the Accountant.

When I was a boy, I remember listening to a conversation between a mill-owner and the headmaster of a secondary school. The conversation was about a lad whose parents desired him to enter this mill-owner's business. This lad had been particularly bright in his studies, and the school-master was deplored that so much talent should be wasted in business. The mill-owner retorted: "If you had a business, it would go bankrupt in 6 months."

This conversation impressed me greatly, and often reverted to my mind.

It is interesting to investigate the causes of the contempt of commerce indicated in the remark of the school-master. One of the principal of these causes I take to be the influence of Greek and Roman ideals in our education. Plato and Aristotle imply that the highest culture is only possible for men who are freed from all mechanical pre-occupations, and that the study of philosophy could only be fruitful in the case of men of leisure. And Plato and Aristotle have been the special study of the schools since the Renascence. The Romans appropriated this view, because, as you know, it was their custom to borrow Greek ideas. It was, moreover, natural that such a view should prevail where Commerce was mainly carried on by slaves and freedmen, or where, as in the case of the Romans, it was possible to lay the whole world under contribution in order to supply a limited population with the necessities of life.

Another cause was the development of the feudal system, under which any occupation, other than that of soldier, or priest, was considered degrading. Trade in feudal times

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was very precarious. The risks of commerce were far greater than as we know them; to lack of credit; and difficulty of communication, there was added the constant danger of robbery and confiscation.

Further, such commerce as existed was mainly in the hands of the Jews, and it was very difficult for others to compete with this talented race, who seemed to possess a sixth sense for sensing out gain. The consequence was that much misery prevailed coupled with cunning and dishonesty. We find this misery and this evil report reflected in literature down to modern times. Everybody will remember in Romeo and Juliet the case of the poor apothecary, with his beggarly array of boxes in the window to make a show, who was easily induced to sell Romeo a violent poison, though he knew it was for some crime, and to whom, when he faintly objected that the discovery of the sale would mean his death, Romeo addressed the eloquent words: "Art thou so poor and full of wretchedness and fearest to die?" And so late a poet as Tennyson, in a call to patriotism, urges "the smooth-faced, snub-nosed rogue to leap from his counter and till, and strike with his cheating yardwand home."

It is astonishing that this feeling against commerce should have gathered the weight it did in a country like England, which Napoleon called a "nation of shopkeepers." Not so many years ago the only business in England into which a man of good family could conceivably enter was that of banker, or that of wine merchant, and 100 years ago it would have been very difficult for the son of a shopkeeper to graduate in an English University. Nevertheless, in the case of the schoolmaster and of most people whom I have heard expressing similar views, I feel certain that the cause consists in a sense of weakness and inferiority. In commerce the battle is for the strong, and many parents are simply playing for safety when they send their sons into professions. They fear that in business they soon might be absorbed into the army of incessant toilers, who with difficulty eke out a precarious existence.

It is important that we should note the fortuitous, accidental nature of such views.

At the same time business men can gather inspiration by reviewing some of the wonders of commerce, and by pondering over the story of the great merchant princes, who have proved potent factors in the civilization of the world.

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In Homer we first read of the great Phoenician rovers, who for centuries navigated the waters of the Mediterranean and monopolized its trade. They were a Semitic race, and were not unlike the Jew of the Middle Ages in the skill they showed in turning to profit the quarrels and difficulties of others. They traded silver and gold and amber for wool and slaves, and few great Greek houses lacked the rich gold and silver ornaments wrought in Sidon. When we consider the narrowness of the territory of the Phoenicians (a strip of land by the sea, 120 miles long by 20 miles broad), the great and flourishing colonies they established, and the fact that they held command of the sea for upwards of 1,000 years, we are strongly reminded of the story of England. And in their final history, when they were forced gradually from their strongholds, and when their navigation secrets were slowly wrested from them, they recall the fortunes of Spain in the 16th and 17th centuries. The Phoenicians established in the fertile region of Southern Spain a wonderful dependency, called Tartessus, of which Cadiz was the centre. Tartessus contained more than 200 flourishing towns, and extended its trade to Cornwall, the Scilly Islands, and even to the Baltic to the North; and to the South their ships went regularly as far as 30 days' sail along the west coast of Africa, where they traded unguents and pottery for the leopards' skins and elephants' tusks of the interior. So renowned were they for their invincible daring and enterprise that the Egyptian king, Neckos, employed them on an experimental voyage round Africa (Libya), starting southwards from the Red Sea. Nekos, who had already attempted the construction of a Canal at Suez, thought to find an easy passage into the Mediterranean. The Phoenicians instead circumnavigated Africa, taking three years to do it, and this was 2,000 years before Vasco de Gama performed the exploit by sailing in the opposite direction.

It was from the Phoenicians that the Greeks learned that the Mediterranean was an enclosed sea, though the Phoenicians were able to guard this secret from them for many centuries.

The Greeks eventually dominated the Mediterranean, which Strabo, a Greek of the time of Tiberius, calls "our sea." This is the title given to it by a modern Spanish novelist of repute, Blasco Ibaney. The Phoenicians were believed by the Greeks to have invented the alphabet. What is more probable is that they were the disseminators of the

THE ACCOUNTANT AND THE DEVELOPMENT OF COMMERCE

remains of the early great Minoan and Mesopotamian and Egyptian cultures.

In the great Arab and Moorish civilization that flourished for 8 centuries in Spain, commerce was honoured and went hand in hand with the arts and sciences. We read of Arab and Jewish soldiers, and poets and astronomers, and even philosophers engaging, on occasion, in commerce.

The story of Abraham ben Mair ben Ezra, in the 12th century, is very interesting. This poet, astronomer, and wanderer recounts his experience in commerce, in these words, strange as coming from a Jew:—"I do all I can to acquire property but the stars are unfavourable. I am confident that if I were to start to sell winding-sheets the reign of death would cease, and that if I were to sell wax candles the sun would cease to set." It is evident that there are some people, even Jews being among them, that are no good in commerce.

And who is not charmed with the story of the courteous and brave merchants of the Arabian tales, who carried their rich wares from town to town in the East, and who in good and bad fortune solaced their leisure moments with music and poetry.

We are equally delighted when we read of the merchants of the great Italian cities of Florence, Genoa, and Venice, the centres of learning and arts from the 13th century onwards. Shakespeare, who tells us the sordid story of the apothecary, also tells us of the richly-laden argosies of Venice, and extols the munificence of their owners.

But from an unexpected quarter there comes to us a strange and eloquent testimony to the greatness of commerce, a quarter far removed from European prejudices, from the Aztecs of New Spain in the days of Hernán Cortés.

In New Spain, our Mexico, merchants were given great consideration in the state. They assumed special insignia or badges of honour. The emperor consulted them frequently, had some of them constantly about his person, and addressed them by the title of "uncle," reminding us of the use of the word "cousin" among royalty in Europe.

The Mexicans considered that the merchant's occupation was the most honourable of all occupations, inasmuch as merchants promoted the prosperity both of the state and of the individual. It was natural that these merchants in Mexico should have become exceedingly wealthy, and should

(Continued on page 22)

COST AND MANAGEMENT

Second Annual Convention, Canadian

PROGRAM

WEDNESDAY

September 7

Meetings in the Arts Building, McGill
University

EXHIBIT OF OFFICE APPLIANCES.

ADDRESSES OF WELCOME—

By speakers from the Universities and
the president of the Society.

ADDRESS:—"Is Business a Profession?"

By Mr. Beaudry Leman, vice-president,
Canadian Bankers' Association, and General
Manager, La Banque Canadienne
Nationale.

ADDRESS:—"The Distribution of Canada's
Harvest, and the Operation of Wheat Pools
and Co-operative Societies."

By Dr. R. Magill, Secretary, The Winnipeg
Grain Exchange; formerly Chairman,
Board of Grain Commission for Canada.

This address will be illustrated by a
motion picture film loaned by the Canadian
Pacific Railway, entitled "Food for Millions," showing the various steps in the
production, export and market of wheat.

ADDRESS:—"What Cost Accounting Stands
For."

By Professor R. R. Thompson, School of
Commerce, McGill University.

LUNCHEON—In the Ball-room of the Union,
McGill University.

THURSDAY

September 8

Meetings in L'Ecole des
Commerciales de Montreal,
of Montreal, 30 Avenue

ADDRESS.—"Professional
Modern Accountant"

By Dr. Henry Laureys,
Higher Commercial and
(Louvain); Doctor in Political
and Social Sciences; Director
Hautes Etudes Commerciales

ADDRESS:—"Leadership in
By Mr. H. T. Jamieson

ADDRESS:—"Costs in the
try."

By Mr. G. M. Pelton,
Office, Swift-Armour, Chic

This address will be in
motion picture film loaned
Armour, and entitled "The
Table."

LUNCHEON:—At Circle U
Sherbrooke Street East.
Professor E. Montpetit, Sec
University of Montreal.

At 3.30 p.m., after the meetings
for the day, there will be an informal
accounting system and plant
Liquor Commission, and a round-table
L. B. Cordeau, President of the

COST AND MANAGEMENT

Canadian Society of Cost Accountants

PROGRAM

TUESDAY

September 8.

Ecole des Hautes Etudes
de Montreal, University
Avenue Viger.

ofessional Training of the
stant"

ary Laureys, Licentiate in
cial and Consular Science,
ector in Political, Economic
ences Director, L'Ecole des
Commerciales.

leadership in Business."
T. Jamieson, C.A., Toronto.
sts in the Packing Indus-

M. Pelton, Comptroller's
rmount, Chicago.

s will be illustrated by a
e film loaned by Swift-
entitled "The Trail to Your

At Cercle Universitaire, 361
Street East. Address by Pro-
totype, Secretary General,
Montreal.

After the meetings are over
will be an inspection of the
m and plant of the Quebec
on, and a reception by Mr.
President of the Commission.

FRIDAY

September 9.

Meetings in the Arts Building, McGill
University.

EXHIBIT OF OFFICE APPLIANCES.

ADDRESS:—"Costing Problems in the Pulp
and Paper Industry."

By Mr. J. H. Wilkie, Auditor, Price
Bros. & Co., Ltd., Quebec. This address
will be illustrated by a motion picture film
loaned by Price Bros. & Co., Ltd., showing
their operations.

ADDRESS:—"Humanizing Cost Data."

By Mr. F. L. Sweetser, Vice-President,
National Association of Cost Accountants,
New York.

ADDRESS:—"Costs in the Rubber Indus-
try."

By Mr. W. O. Cutter, United States
Rubber Company.

ADDRESSES—

By Professor R. M. Sugars, Director,
School of Commerce, McGill University.

By Mr. C. R. Stevenson, and by Dr.
Stuart McLeod, President and Secretary,
respectively, National Association of Cost
Accountants, New York.

DINNER:—7.30 p.m., Windsor Hotel, for
those attending the convention, and their
wives and other lady friends.

AT HOME—10 p.m.: The President, Mr.
Lorenzo Belanger, C.P.A., C.G.A., and Mrs.
Belanger.

COST AND MANAGEMENT

THE ACCOUNTANT AND THE DEVELOPMENT OF COMMERCE

(Continued from page 19)

have acquired the most essential advantage of a hereditary nobility.

Sahagun, Spanish historian, in his *Historia de Nueva España* tells the following interesting story of a chieftain's advice to his son: "See that you devote especial care to all that relates to agriculture, to feather-work, and to other honourable occupations. In no part have I ever seen anyone maintain himself by a mere title to nobility." Prescott says: "How strange must this have sounded in the ears of the invading Spaniards."

When we think of these great merchants of the past, who were so brave and adventurous—of these great discoverers, who promoted the intercourse between man and man, and were everywhere fosterers of art and science, the same adventurous spirit that inspired them is stirred within us. Fired with enthusiasm, we long to go forth and emulate their deeds, and also win some of their rewards.

But since then commerce has changed. It has become in modern times the very basis, the pillar of our civilization. If paralyzed for any reason, the millions who now people the world must soon die of starvation, and all our glories of art, science and learning dwindle and disappear.

Furthermore, Commerce has in its evolution created great evils of a social and economic nature, which, if not delicately and wisely handled, threaten to produce the very paralysis of which we speak.

We are but too well aware of what these evils are. They spring from those base qualities of human greed and selfishness, which make men ready and willing to live by the evil plight of others to take advantage of the necessities of others, to suck the life blood of others, relying, or hypocritically pretending to rely on some economic theory, conceived in cinicism, such as the "minimum wage" and the "wages fund." The result quickly appears in anarchy and in strife. It is the sowing of the dragon's teeth, from which spring armed men; and this strife propagated from generation to generation, finally lays all in ruins.

I think indeed that as time goes on, and we are able to sift into the origins of much that is now happening, we shall find that the drawing together of the universities and the business world is partly due to an intuitive desire to do

THE ACCOUNTANT AND THE DEVELOPMENT OF COMMERCE

away with modern evils and to save civilization. For the new leader in commerce, while he must be just as adventurous as of old, must be a man of wide sympathies and mature wisdom. He must have a pregnant sense of his great responsibilities. Hence he comes to the University to acquire something of the erudition of the schools, which will enable him to grasp life in a nobler and a fuller way, to grasp it as a whole, and view commerce, not in itself, but in its manifold, essential relations to the other great manifestations of human energy.

This applies in a particular sense to the Accountant. To-day the Accountant occupies a privileged position. His function is much more important than is connoted by his title. He has become recognized, in a measure even by law, as the proper adviser and guide of the business man. Part of his function will indeed be to help create the great business leader of the future. What visions do we not conjure up of the new merchant with the Accountant to guide him, and with the wonderful experience of the past before him, issuing forth to develop for the good of all classes the wonderful resources of Canada. It is not strange that the University, which strives to grasp things not in their transitory, fleeting aspects, but *sub specie eternitatis*, should have hastened to grasp the Accountant to its bosom.

The Accountant of to-morrow will be a man who has received his first training in the University, where he will assimilate the best that has been thought, and known, and spoken, in the world, acquiring universal sympathies and accumulating wisdom. Thence, like the ruling class of Plato's ideal state, the philosophers, he will go to the world, where he will perfect his knowledge in intercourse with business men, and carry on his life's task, helping to hand down to our children a richer and nobler civilization than that which we have inherited. We cannot say that his material rewards will be great,—let him remember that Plato's philosophers received nothing—but he will earn sufficient to satisfy man's legitimate needs, and will have learned to make a proper use of his leisure, which is alone more than an inheritance. Thus he will reach an honoured and cultured old age, and when at last the Sunderer of Delights and Days approaches, he will view with serenity his departure from the scene of his earthly labours, like a mariner who is coming home to port after a long and tempestuous journey.

The Financial Statement and What it Can Teach Us

By JOHN COWAN

Vancouver Milling and Grain Co., Ltd., Vancouver

(Before the Canadian Credit Men's Association at Edmonton, in June,
1927)

THE topic assigned to me is presented with natural timidity as it is recognized the subject of "Financial Statement" in any or all aspects is thoroughly thread-worn, particularly amongst such experts as are found in the ranks of Credit Men. However, I do so with an assurance born in my past professional experience that no matter how familiar one may be with accounting principles, there is always some new idea to be gained from utterances or writings of a "kindred spirit."

This is rendered possible by the extent of the science and by the variety of the experience contained even in the aggregate represented by such a group as the one to whom these thoughts are addressed. My point in this regard may well be illustrated by reference to the number of works on general accounting. Whilst the fundamentals expounded in each may be identical, oftentimes special views or arguments are introduced in a new light or different manner which provides adequate compensation for the time given to the reading or study of a number of works apparently dealing with exactly the same matter. Therefore, I am conscious the following discourse is but "a dauner ower kent grun," and as such is made to renew auld acquaintances and perhaps emphasize some features which have been ignored because of their seeming familiarity.

It must also be recognized that within the confines of the time allotted, it is impossible to indulge in exhaustive explanations, so that in a general way the points made will be those deemed worthy of contemplation.

To aid in the presentation, an imaginary set of financial statements has been prepared and will form the basis of the major portion of the ensuing discussion. Unfortunately these are more comprehensively drawn than those usually available when reviewing the average credit risk. It will be observed that they consist of:

THE FINANCIAL STATEMENT AND WHAT IT CAN TEACH US

- (1) Comparative Balance Sheet as at July 31st, 1923 and 1924.
- (2) Comparative Profit and Loss Account for years ending the same dates.
- (3) Statement showing absorption of profits for the later year's operations.
- (4) Manufacturing accounts for the periods mentioned.
- (5) Comparative statement of percentages and costs per ton.

Remarks for the most part will be centred in the first three, the other two being given for individual consideration rather than part of discourse now as sufficient could be given aenent these alone to occupy the time allotted.

Dealing with the relative significance of the first two statements mentioned, would indicate the information each is expected to convey. The Balance Sheet represents the actual financial position at the exact moment of time designated thereon whereas the Profit and Loss Account records the progress effected over a period of time. In other words, one manifests the position whereas the other reflects progress.

A word re comparative statements might be in order at this juncture. The usual procedure is to compare a Balance Sheet as at a given time with the immediately preceding one, whilst Profit and Loss Accounts, when for a period less than a year, should be compared with the corresponding period in the preceding year. It will be readily appreciated if the Profit and Loss Account, say of a millinery store, for three months ending June 30th were compared with the three months ending September 30th, the comparison would not be strictly true unless to trace the effects of the separate seasons and would lack some of the main essentials. According to the prevailing custom here, the first period mentioned would show fairly extensive volume at remunerative prices against a more restricted one at possibly bargain prices during the later three months. It is obvious that a better comparison would be the three months ending June with the three months ending June in the preceding year and similarly with those ending September.

Balance Sheet

There has been greater controversy over the form in which Balance Sheets should be presented than on any other

COST AND MANAGEMENT

matter known to accountants. The reason may be explained to some extent by the number of uses to which this statement may be put. Naturally the spectacles of the scrutineer are adjusted to his own particular quest and consequently it pleases him to have his phase of the financial statement duly emphasized. Examples of the diversified viewpoints may be found in the following classes which at some time or another are interested in these financial statements—bond-holders, bankers, credit managers, shareholders, tax authorities, stock brokers, investors, financial institutions of various descriptions—each having theories peculiar to their circumstances and prefer having them easily discernible from an inexhaustive inspection of the data furnished.

In the form submitted herewith one controversial aspect has been purposely avoided, viz., that of the side of the sheet on which the assets and liabilities should appear. This was not wholly with the view of escaping that issue but it is the general consensus of opinion among accountants that everything possible should be done to simplify statements so that the uninitiated who are sufficiently equipped mentally to add and subtract can personally size up a group of figures presented in a Balance Sheet, etc., without coaching from experts. With this end in view the practice has gradually become universal of submitting Balance Sheets with the assets and liabilities classified and grouped one over the other. Some objection may be taken to the presentation of the liabilities first, as shown, but if anyone has any strong convictions in the matter they are at liberty to reverse the order as inevitably one had to be placed over the other and I followed the line of least resistance, giving the preferred position to the one which came first to mind.

During the past decade a commendable practice was initiated amongst thinking accountants of condensing Balance Sheets and other financial statements to a point consistent with their recognized functions, in order to avoid clouding the essential facts which should be portrayed by the individual statements. This has been rendered comparatively easy by the introduction of subsidiary statements under the dignified title of "Schedule." This explains the references contained in the financial memoranda submitted as part of this paper, the practice being indicated thereon by setting a schedule number opposite the different items

THE FINANCIAL STATEMENT AND WHAT IT CAN TEACH US

which in the ordinary course would be supported in this way.

Regarding the grouping of the items, as this is a Credit Men's Convention, I felt that their viewpoint was paramount and should be accentuated in the remarks made. Consequently, it will be found that the current liabilities and assets appear at the head under their respective sections. Discussion follows on the several outstanding items which appear in the statement placed before you and it is the intention to deal with these more from the point of view of the credit examiner than from the viewpoint of the merchant dignified by the title shown at the top of the accounts.

The method employed is that of dividing the subject broadly into two sections:

(a) Indicating in a general way some aspects which tend more towards verification of the data submitted in the printed form rather than the actual interpretation of the statement.

(b) Focal points to aid criticism and reduce the figures given to a formula which will prove practical when applied to most cases.

This is by way of deviation from the usual treatment, as I feel this is advisable, due to the excellent address given last year on the same topic by Mr. P. M. Chiswell, Chief Accountant at the Head Office of the Association. Again, it must be conceded if the foundation is unsound, i.e., the statement is not in accordance with the facts, then the superstructure, irrespective of any claim to the practical, will lead to findings that are entirely misleading.

For purposes of convenience, I have assumed the affairs under discussion are those of a Joint Stock Company.

LIABILITIES

Current—There is nothing under this heading which would call for special comment other than to be reasonably satisfied that all the liabilities pertinent to the classification have been incorporated in the accounts prior to the date mentioned. Apropos this point, attention is directed to the question of accuracy of the financial statements, which is dealt with later.

In passing, a thought suggested by the borrowings under Section 88 of the Bank Act may be in order. In the pro forma statements furnished, this does not represent any

COST AND MANAGEMENT

AL. BUNKUM AND CO. LIMITED

Comparative Balance Sheet as at July 31, 1923 and 1924

LIABILITIES

	1923	1924	Increase+ or Decrease—
	\$	\$	\$
Current:			
Defunct Bank of Canada Demand Loan Section 88	10,000.00	5,000.00	— 5,000.00
Sundry Creditors (Schedule 6)	3,967.52	5,549.13	+ 1,581.61
Bills Payable (Schedule 7)	6,795.00	5,003.12	— 1,791.88
Accrued Charges	457.65	563.00	+ 105.35
	21,220.17	16,115.25	— 5,104.92
Fixed:			
Capital	35,050.00	37,000.00	+ 1,950.00
Debenture Bonds	40,000.00	40,000.00	—
Mortgages on Premises	6,000.00	6,000.00	—
	81,050.00	83,000.00	+ 1,950.00
Reserves:			
For Depreciation (Schedule 8)	4,752.38	5,375.00	+ 622.62
Against Accounts Receivable (Schedule 9)	893.00	684.85	— 91.85
For Discounts	105.25	210.67	+ 105.42
For Equalization of Dividends	10,000.00	12,500.00	+ 2,500.00
General	5,000.00	6,000.00	+ 1,000.00
	20,450.63	24,770.52	+ 4,319.89
Profit and Loss	19,096.00	55,113.24	+ 36,017.24
	<u>141,816.80</u>	<u>178,999.01</u>	<u>+37,182.21</u>

ASSETS

	1923	1924	Increase+ or Decrease—
	\$	\$	\$
Current:			
Inventories (Schedule 18)	43,215.63	41,171.41	— 2,044.22
Accounts Receivable (Schedule 14)	9,573.89	23,981.45	+ 14,407.56
Bills Receivable (Schedule 15)	1,112.13	13,863.96	+ 12,751.83
Cash in Bank and on Hand	55.12	11,982.38	+ 11,927.26
	53,956.77	90,999.20	+37,042.43
Investments	15,650.00	17,500.00	1,850.00
Fixed:			
Real Estate and Buildings	9,600.00	9,600.00	—
Plant and Machinery (Schedule 10)	12,450.00	12,037.42	— 412.58
Tools and Equipment (Schedule 11)	1,566.34	1,734.56	+ 168.22
Office Furniture (Schedule 12)	911.87	934.90	+ 23.03
	24,528.21	24,306.88	— 221.33
Deferred Charges (Schedule 16)	2,057.75	568.86	— 1,488.89
Goodwill	45,624.07	45,624.07	—
	<u>141,816.80</u>	<u>178,999.01</u>	<u>+37,182.21</u>

AL. BUNKUM AND CO. LIMITED

Comparative Profit and Loss Account for the Years Ended July 31, 1923 and 1924

	1923	1924	Increase+ or Decrease—
	\$	\$	\$
Sales less Returns (Schedule 1)			
103,231.45	102,467.82	— 2,763.63	
Less—Trade Discount	11,693.82	10,573.29	— 1,120.53
	116,925.27	113,041.11	— 3,884.16
Cost of Sales:			
Manufacturing Costs (Schedule 2)	54,675.41	55,978.35	+ 1,302.94
Decrease in Inventories of Finished Goods	1,452.97	2,044.22	+ 591.25
Warehouse Wages	5,061.19	5,476.21	+ 415.02
Warehouse Rent, Rates, Taxes and Insurance	945.30	987.57	+ 22.27
	62,134.87	64,466.35	+ 2,331.48
Gross Profit for Period	54,790.40	48,574.76	— 6,215.64
Selling Expenses (Schedule 3)	4,542.01	4,399.15	— 142.86
General Expenses (Schedule 4)	5,119.37	4,089.75	— 1,029.62
	9,661.38	8,488.90	— 1,172.48
Operating Profit for Period	45,129.02	40,085.86	— 5,043.16

THE FINANCIAL STATEMENT AND WHAT IT CAN TEACH US

Interest and Miscellaneous Expenses:

Interest and Miscellaneous Expenses:				
Bond Interest	1,937.42	2,000.00	+	62.56
Mortgage Interest	480.00	480.00		
Interest and Discount	1,514.90	2,021.34	+	506.44
Loss on Capital Assets Sold (Schedule 5)	15.26	119.95	+	104.69
Bond Discount—Proposition written off	335.00	335.00		
Reserve against Accounts Receivable	526.15	512.33	-	13.82
	4,805.73	5,468.62	+	659.89

Profit for Period

Additional Income:			
Dividends from Investments	1,250.00	1,400.00	+ 150.00
Profit from Investments realized during year	6,000.00	3,500.00	- 2,500.00
	7,250.00	4,900.00	- 2,350.00

Net Profit for Year

Appropriation:			
Balance as at July 31, 1923			19,096.00
Profit as above		39,517.24	
Less—Transferred to General Reserve	1,000.00		
Transferred to Equalization of Divi- dend Reserve	2,500.00	3,500.00	36,017.24

Balance Carried Forward

11. PUNISHED AND GO UNPUNISHED

AL. BUNKUM AND CO. LIMITED
**Statement Showing How Profit for Year Has Been Absorbed in the
 Operations of the Company.**

Improvement in Liquid Position as shown below:

Improvement in Liquid Position as shown below:	
Increase in Current Assets	\$37,042.43
Decrease in Current Liabilities	5,104.92
	\$42,147.35
Amount invested during year	1,850.00
	\$43,997.35

Lens:

Decrease in Fixed Assets (being amount received net from sale of Assets)	\$ 221.33
Increase in Reserves	4,319.89
Additional Capital Received	1,950.00
Decrease in Deferred Charges	1,488.89
	7,980.11

Net Profit, as per Profit and Loss Account

\$36,917.24

AL. BUNKUM AND CO. LIMITED

RE: BUNKUM AND CO. LIMITED
Manufacturing Account for Years Ended July 31, 1923 and 1924

Total Cash Costs Cost Per Ton

	Total Cash Costs		Cost per Ton			
	1923	1924	Increase+ or Decrease—	1923	1924	Increase+ or Decrease—
Cost of Materials Used:						
Purchases of Raw Material	27,817.85	24,477.51	-2,839.84	10.28	8.79	-1.49
Increase or Decrease in Inventories	-1,515.61	+485.99	+2,001.60	-.56	+.16	+.74
Wages	25,801.74	24,963.50	-838.24	9.72	8.97	-.75
Machinery Upkeep	15,549.37	16,175.63	+626.26	5.85	5.81	-.04
Building Rental	3,912.17	3,854.26	-57.91	1.47	1.38	-.09
Depreciation on Machinery, etc.	2,450.00	2,450.00	—	.92	.88	-.04
Water	1,602.00	1,622.50	+20.50	.60	.58	-.02
Coal and Oil Fuel	105.00	100.00	-5.00	.04	.04	—
Electric Light	2,431.89	2,619.17	+187.28	.92	.94	+.02
Rates and Taxes	274.96	251.73	-23.23	.10	.09	-.01
Miscellaneous	561.45	602.32	+40.87	.21	.22	+.01
	1,986.83	3,839.24	+1,852.41	.75	1.20	+.45
Production (Tons)	54,675.41	55,978.35	+1,302.94	20.58	20.11	-.47
	2,656	2,783	+127			

COST AND MANAGEMENT

AL. BUNKUM AND CO. LIMITED

**Comparative Statement of Percentages and Costs Per Ton for the Year
Ended July 31, 1923 and 1924**

	Percentages			Cost Per Ton		
	1923	1924	Increase+ or Decrease—	1923	1924	Increase+ or Decrease—
Sales	100.00	100.00	—	43.98	40.62	—3.36
Cost of Sales	53.13	57.03	+3.90	23.39	23.16	—.23
Gross Profit	46.87	42.97	—3.90	20.59	17.46	—3.13
Selling Expenses	3.88	3.89	+.01	1.71	1.58	.13
General Expenses	4.38	3.61	—.77	1.89	1.47	.42
	8.26	7.50	—.76	3.60	3.05	.55
Operating Profit	38.61	35.47	—3.14	16.99	14.41	—2.58
Interest and Miscellaneous Expenses	4.13	4.83	+.70	1.81	1.96	.15
Profit for Period	34.48	30.64	—3.84	15.18	12.45	—2.73
Additional Income	6.20	4.33	—1.87	2.72	1.76	.96
Net Profit for Period	40.68	34.97	—5.71	17.90	14.21	—3.69

particular cause for comment other than that regard should be paid to the fact that the inventories, either whole or in part, are held as security against such advances. The Banks usually expect that the value of the security will be at least 100% greater than the amounts advanced. The declaration of this item in the Balance Sheet, which should be specially mentioned, is sufficient warning to creditors and others that part of the current assets at least have been hypothecated and due weight given this feature in the criticism.

Fixed—It is not intended that extended consideration will be given to the separate items shown hereunder, especially in the case of capital, as that subject is one which would require longer time than that now available. Suffice it to say the critic should endeavour to ascertain the exact position which is ordinarily more easily defined in the case of Joint Stock Companies than in Partnerships. Even in the former, there are oftentimes snares for the unwary. These do not always trip creditors alone, because it is possible that the untutored owner may not have revealed the exact status on account of his lack of appreciation of the actual incidence of the capital transactions. The foregoing statement is made to impress upon members the fact that, when unfortunate enough to take part in a financial post mortem, they should not overlook the possibilities which may arise through a close scrutiny of the transactions centred in the capital account.

Debenture bonds afford an interesting study and should always be given careful investigation. It is amazing the

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ignorance which prevails with regard to this liability as many business men hold the idea that an accounting transaction bearing the appellation of "debenture" has behind it special security, and if they possess an investment designated as a "debenture," they are a preferred creditor in that particular Company in the event of insolvency. On the other hand, there is a presumption on the part of some that debentures are only secured by real or fixed assets and ignore the possibility that the lien may extend to the majority of the current assets.

If your or a client's interest, financial or otherwise, warrants, then the only course to pursue is to ascertain the exact position as defined in the trust deed under which the charge, if any, against the Company's assets has been established. In this connection, there is also the question of registration, which I understand is applicable to most Provinces where the Joint Stock Company principle is recognized. It is possible that if the terms of the statute have not been complied with in this regard the preferred charges, if any, on the assets can be rendered void.

The subject of debentures together with the allied topic of sinking funds is too comprehensive to be dealt with further. With regard to sinking funds the investigator should ascertain if possible whether the conditions attached thereto have been complied with, which can easily be ascertained from the Auditor's doquet to the Balance Sheet, it being their duty to intimate, either against the item itself or in the report to the Shareholders, any infractions.

Reserves—In the Balance Sheet submitted, the reserves disclosed can be classified into two sections, viz.:

(1) those which have been *set aside* out of profits to meet known contingencies not exactly determinable at the date of the statement, such as depreciation, loss for bad debts, etc.

(2) *distribution* of the profits made for specific or general reasons which really represent additional capital invested in the business.

Among certain accountants a well established practice exists of deducting depreciation, reserve for bad debts, etc., from the assets affected and only showing the net value in the Balance Sheet. This has its commendable features but I feel that in preparing that statement for ordinary trade pur-

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poses, the method given in that submitted herewith has superior advantages.

With reference to depreciation alone, there are income tax and insurance points which should not be overlooked. The opinion is held with regard to income tax that the amount of depreciation provided need have no relation whatsoever to the general scale set by the Government Department. Whilst admitting that a few of the officials take a somewhat narrow view in this regard, it is believed the contention can be upheld that the allowances set by the Department can be claimed, irrespective of the amount actually written off. A little introspection will proclaim the logic of the attitude adopted although some aggressive tax officials endeavour to withhold this right. So if the provision is divorced and maintained in the form of a reserve, the temptation to amend the Government standards is removed and often prevents the question being raised.

Case for insurance is perhaps more potent than the one regarding depreciation. In the event of a claim for fire or other loss, ready recognition will be given to the fact that the depreciated value, as indicated in the books of account in the majority of cases, does not represent the one on which a claim should be based. In this connection, if the deduction method is employed (either in books or the financial returns, but particularly the former) when the adjusters call for the books, statements, etc., to aid in ascertaining the loss sustained, the fact that a certain reserve has been provided and deducted naturally creates the impression that the book value is, in the mind of the claimant, representative of the value irrespective of the actual facts. Consequently, any disposition to prove otherwise makes the task harder. On that account, and unless strong representations were made that a contrary course was advisable, I have endeavoured to adhere to the policy indicated in the statement under discussion.

As in some of the other instances, the question of depreciation is highly scientific and demands very close study, so the attitude of leaving it alone again provides an easy retreat.

A word with regard to a remark which often appears during dull periods, and which in most instances represents weakness, because it emphasizes unduly a status which might be accepted without undue notice if efforts to justify

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the condition were omitted. This usually appears couched in language akin to the following: "Depreciation has not been written off during the past year as the Directors are of the opinion that the present value of the assets in question is considerably below the cost of replacement and therefore the provision made previously is ample to offset the ordinary wear and tear to date." Let me repeat that such a comment in the Directors' or President's report is undignified and serves to emphasize the Company's unfortunate experience in not being able to provide its annual charge for depreciation.

Profit and Loss—This does not call for any lengthy discussion as the figure recorded in the Balance Sheet is usually sufficiently significant to indicate exactly its relation to the rest of the statement. Reference is made to this later when dealing with the account or return supporting the amount shown against this item.

ASSETS

Current—A contrary condition, although similar in effect, may obtain here to that indicated under the heading of current liabilities. It was stated there that the Scrutineer should be on his guard against undervaluation. In this instance, it is usually that of overvaluation so that the examiner should keep this fact uppermost. The chief opportunities afforded the manipulator are with regard to inventories and it is somewhat regrettable that, even in the duly certified statement by responsible chartered accountants, this weakness may still exist. This will be quickly appreciated when it is remembered that the preparatory data must be obtained from officials of the Company who possibly possess technical skill on this subject denied others except parties thoroughly acquainted with the lines handled. So it is that the expert accountant is forced to rely on the trustworthiness of individuals who may be interested in withholding valuable information.

At any rate, the investigator should ascertain the method of valuation and if possible see that this has been done as close to the classical idea as possible, viz.—the market or cost price, whichever is lower. Any deviation should promote interrogation in order that a satisfactory explanation may be obtained for the departure from the accepted principle.

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One must also be on guard to be satisfied that the inventory is free from charges or liens and that any stocks held on consignment have not been included therein. The omission of the former and the inclusion of the latter, together with over-statement in quantities and valuation, furnish the chief outlets for the unscrupulous when presenting a statement with the viewpoint of influencing bankers, creditors, investigators, etc., and it must be considered that these channels afford them greater protection against discovery than possibly any other. On that account, it may be stated without hesitation that special attention should be given to this item in any Balance Sheet.

Accounts Receivable also offer scope for considerable attention but for the most part this avenue of research is more definite and, accordingly, can be checked with greater ease and speed except for one feature which is referred to later. The examination is mainly reduced to ascertaining the status of the account as to age and collectibility so that an opinion can be formed as to the adequacy of the reserve against loss and the administrative efficiency. Again, in this regard, the certificate of a reliable firm of auditors should be sufficient guarantee, unless special reference is made to point that the contrary is the case, that sufficient provision has been made for losses of the nature indicated.

The practice is by no means unknown to include, even wilfully, amounts representing the sale value of goods sent to customers on approbation which in its incidence is a minor offense compared with the practice of including forward sales as accounts receivable, delivery of the goods being made subsequent to the date of the Balance Sheet. It is admitted that in large concerns either may be innocently done but nevertheless calls for careful handling. The ordinary examiner is again entitled to rely on the audit, if performed by a reputable firm.

The other items given under the caption of "current assets" present no special features, any points which could be made with regard to them being already covered during the discussion on allied subjects.

Fixed Assets—One could make extensive observations on the several items noted under this section but the intention is not to defeat the object of the whole discussion by surrounding it with needless detail on the different matters

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introduced through the assets grouped therein. Suffice it to say with regard to real estate and buildings, particularly in the West, a strong inclination did and does yet exist to take into account appreciation on these and other permanent assets, due to conditions induced by other than direct operations. Admission is made that in some concerns this is a difficult subject, and there may be justification for some revision in values being incorporated in the financial statements, but this is no extenuation of the practice which is fairly evident in the statements which come to the Credit Man's desk from time to time.

The note of warning sounded here is, information should always be sought from debtors presenting a statement, when soliciting credit, as to the method of valuation employed in setting up the fixed assets. The actual existence of these is also a question of material doubt in some instances as borne out by my professional experience. On investigating accounts or books for the first time, I have in numerous cases found fixed assets being maintained as such where they had entirely disappeared, sometimes no effort being made to write them off or this was only done in part. Candidly, it is exceedingly hard for the casual investigator to determine the exact status in matters of this nature, but once again, in instances where the accounts have been audited by first-class accountants, he can rest assured that such infractions do not exist.

Investments—This item is not so popular as one would wish in Balance Sheets usually presented to business houses by customers, but where it does appear, care should be exercised to see that the value placed thereon is consistent with the security held, particularly if they subscribe a material part in arriving at the decision to grant credit.

Deferred Charges—These do not call for any protracted review as the items included therein are fairly specific and can easily be checked by the interested inquirer.

Goodwill—From the viewpoint of the Credit Man, this is also an item, although exceedingly interesting, which can be dispensed with quickly. To those who would like to pursue the subject in a fairly comprehensive way, I would indicate there are numerous excellent works on the subject apart from the admirable short treatises contained in many of the recognized accounting works.

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Profit and Loss Account

It is not my intention to advance any lengthy dissertation on the composition of the Profit and Loss Account. Apart from the final result shown therein, in most surveys of a casual nature it receives scant attention in comparison with the parent statement which has already been dealt with in the preceding pages. Of course it need not be stated that there is ample scope for investigation and profitable study, but this aspect is now left with the injunction that the critic of any financial statement should see that the figure incorporated in the Balance Sheet from this source is obtained conservatively and that any semblance to enthusiastic optimism has been excluded in arriving at the conclusion drawn.

In passing, I would direct your attention to the third statement, which attempts to show the method by which the profit for any period has been absorbed in the operations of the concern. Let me state that the information thus furnished is readily extracted from comparative Balance Sheets drafted in the manner outlined in No. 1. This will be evident from comparison of the figures shown there with the several items in Statement No. 3.

The data given in the last mentioned explains the query put with marked regularity to accountants by their less experienced commercial brethren. On being apprised that a profit has been earned, the average business man looks for its reflection in his bank account, and unless substantiated therein, he is loath to accept the conclusions drawn or, at best, is mystified by the lack of confirmation which in his opinion should be forthcoming from this source. I believe all will agree that the statement referred to, prepared in the manner indicated, will dissolve most difficulties of the nature mentioned. Accordingly, its submission with financial statements should be the endeavour of every accountant.

Statements Nos. 4 and 5 were not intended to receive any noteworthy consideration but were given as indicating to those interested the form in which Profit and Loss data can be more readily assimilated. They feature the results reduced to a common basis, which renders comparison easier and more acceptable. I believe that most will agree that the Profit and Loss Account of itself, other than disclosing the final result, does not convey any real message but when

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supported by evidence of the nature given in the form outlined on the appendices Nos. 4 and 5, valuable material is furnished. Therefore, it should be the aim of accountants to reduce, where possible, the figures given in the Profit and Loss Account to such a formula as will best express the information tabulated. I may say the percentage system is generally adopted where it is not practicable to use a tonnage or other unit basis. The best example of this is the retail store.

General

What has been furnished to this point may in a general way be deemed a series of warnings to be observed whilst casting a critical eye over the average Balance Sheet and so far little direction has been given to what may be designated as "reading the Balance Sheet." There is no royal road to the acquisition of this faculty, although pointers can be given which may prove acceptable to the more astute reader. In this as in other matters the old saying is exemplified that "One can only get out of a thing what he puts into it," so that in accounting, the degree of proficiency is in some measure determined by the application and experience of the student.

I know that a great deal has been made of this subject, in fact I feel certain that a number of relatively unimportant features have, for the purpose of elaboration and window-dressing to a degree only limited by the egotism of the authors, been displayed and unduly enlarged on numerous occasions. This has done much to make a fairly logical subject mysterious to the Nth degree. With this knowledge, it is my intention to make the balance of the remarks as simple and as pointed as possible.

On being presented with a Balance Sheet, the examiner will, of course, be familiar with the purpose of the investigation and will attack the subject in the manner most convenient towards its attainment. Unless the figures available are prepared or can be tabulated in comparative form along the lines previously referred to, the conclusions cannot be drawn so readily and with the same precision as would otherwise prove to be the case. Assuming that comparative data is presented, the inquirer can ascertain with accuracy and speed such information as the fixed capital, circulating or floating capital, etc., by deducting the fixed liabilities and

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current liabilities from the fixed assets and current assets respectively for the two or more periods being compared. These results have an important bearing, one upon the other, as a preponderance of the first and a dearth of the latter might mean the difference between life and death of a concern. Conversely an affluent position in the floating capital renders greater care in financing and usually bespeaks efficiency in operating and a worthy credit risk.

From the Credit Man's point of view, the ascertainment of the position in this regard should be his first quest and particular note made of any material fluctuations in the recent past. Such a study will acquaint the searcher more quickly than any other means, with the progress being affected by a particular concern. With this intelligence, he can draw conclusions which should aid in arriving at the nature and extent of the credit accommodation to give the debtor or what amendment may be necessary to the credit policy in vogue with regard to the account.

If comparative Balance Sheets are available and set up as given, apart from the question of the distribution of capital, the increase or decrease against the individual items should be also carefully perused and their effect on the whole business in general and the credit situation in particular noted.

A feature generally known but not always accepted or followed in practice is the ratio borne by the inventory and accounts receivable to the sales turnover. This usually furnishes a fairly accurate and representative index as to the management and the virility of the concern. The smaller in amount the inventory and accounts receivable are relatively to the sales speaks more favourably for the concern. Apart from special trade conditions, should the accounts receivable exceed one-sixth of the annual turnover, then it would ordinarily appear there were reasonable grounds for keen interrogation as to the causes.

Often the Credit Man is able to reap the advantages to be derived from comparing statements of a number of concerns conducting business of a similar nature within the same or contiguous area. The observant individual must be struck with the recurrence of certain features or traits peculiar to the industry or locality that assert themselves in the financial accounts of such firms during certain periods. Utilizing these opportunities, in time a faculty is created

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almost uncanny in its deftness of sifting and abstracting the essential and casting aside those items that may be of little consequence but sometimes misleading in their incidence. Consequently, pains should be taken by the credit man to cultivate the habit of grouping financial statements of kindred establishments, in a given industry, and comparing them with each other, particularly with regard to the common features which may be disclosed. Of course, due recognition and weight must be given to obvious differences which are bound to exist as practically no two concerns are identical in all respects, but there are some features general to almost all units, large or small, in the specific industry within the same area.

Attention has been directed to the under-estimation of liabilities and over-valuation of assets which, as must be admitted, have their counterpart in the under-valuation of assets and very occasionally the over-estimation of liabilities. Where this is done, either consciously or unknowingly, a secret reserve has been created. The financial morality of this condition has been debated very keenly by accountants for a number of years and there still exists a sharp conflict. Undoubtedly, even under the Joint Stock Companies Act, secret reserves are permissible provided these are not manipulated for the personal gain of the directors or the management. For those who are disposed to pursue the question further, I would commend a study of Newton vs. Birmingham Small Arms Co. (1906), 2 Ch. 378 case, which, together with the opinions expressed by learned accountants, notably Dicksee in his work on Auditing, deals fully with the subject.

From what has been written it will be observed that considerable dependence is placed upon the source and origin of financial statements, also whether authenticated by reputable accountants, preferably on account of their training and experience, chartered accountants. As stated earlier, unless the examiner can be assured that the information submitted is reasonably accurate, it is sheer waste of time to endeavour to draw conclusions from such figures submitted.

This is supported further by my own professional experience, as I can say without fear of contradiction that in 99% of the jobs which fell to me and which had not been audited previously, the statements prepared prior to the

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engagement were far removed from the actual facts they purported to present.

In using the services of mercantile houses in my present position, I feel one of the severe handicaps under which the Credit department is functioning is the evidence that those institutions' greatest ambition is to *get* a statement of some sort rather than to insist that only returns duly audited can be accepted and used for the purpose. Even some of our Banks seem to err in the same direction, as instances have been known where figures submitted by the principal of a firm have been accepted with little examination or qualification. As a Credit Man and not as a professional accountant, feel that concerted efforts should be made towards acceptance of duly certified statements (when

In conclusion, I would again draw your attention to my opening remarks which referred particularly to the lack of claim to any superior knowledge on the subject and hope that the patience of my auditors has not been severely overtaxed by these remarks on a subject that has been treated so often and so ably on different occasions by experts. I trust, however, that at least one new phase has been presented to a few, and if such proves to be the case, I am happy and feel amply repaid for the time taken to assemble the ideas expounded.

